

# **THE LEONARD LETTER**

*A weekly electronic newsletter about  
California government, business and taxes*

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## **QUOTE OF THE WEEK**

*“The things that will destroy America are prosperity-at-any-price,  
peace-at-any-price, safety-first instead of duty-first,  
the love of soft living, and the get-rich-quick theory of life.”  
--- Theodore Roosevelt (1858-1919) 26th U.S. President  
Source: letter 01/10/1917*

## **UNDER THE DOME**

### **\*\*\*Prison Special Session\*\*\***

The Legislature will be back in session soon (You thought it had gone home for the year). Some reporters and editors missed this and confused the sine die adjournment of the regular session to also include the special session. These same legislators can meet and vote on bills up to the end of November if they want to. It is critical that they work together to address our overcrowded and understaffed prisons. Years ago I introduced legislation to build new prisons for inmates with AIDS and other long-term care felons, as well as lifers who were getting old. These needs still must be taken care of, so back to work!

### **\*\*\*Your Money=Angelides' Expenditure\*\*\***

You may have noticed that gubernatorial candidate Phil Angelides keeps suggesting new tax hikes for us to pay. The most recent was an auto services tax so that, for example, when you get your oil changed, you not only pay sales tax on the new filter, but also on the labor. So much for his argument that he only wants to tax the rich. For those of us who do not want to pay higher taxes, you may wonder where Angelides and the budget liberals in the legislature get the idea that you have so much extra money to share with the government.

Budget liberals have a unique way of viewing the world best explained by budget reports. Budget reports consist of what the rest of us have in our family budgets: revenue and expenses. But added is one thing normal people do not track: tax expenditures. This is a category that exists on paper that says “here is how much money the government would

have collected had it not been for this particular exclusion, exemption, credit, incentive or subsidy.” That includes those evil exemptions advocated by the two largest and particularly scurrilous special interest groups in the state: home owners and food eaters.

A new requirement imposed by the liberals in the legislature is that the Department of Finance report to the legislature each year on each of these so-called tax expenditures in excess of \$5 million. Liberals begin with the assumption that all resources belong to the government, so tax expenditures are just loopholes that allow people to keep resources that government ought to have. They need this new report to identify exactly how many “government” resources are slipping through these loopholes, so that they can find ways to further restrict them and keep more for government. I offer this very simplified tax expenditure report that gets to the heart of the liberals' intent:

Californians' Payments to IRS	\$ 221 billion
Total State & Local Revenues	\$ 192 billion
Total taxes to government	\$ 313 billion
Californians' Total Annual Income	\$ 1.4 trillion

That means that government is already getting 22% of all income in California, on average, but legislators are still worried that 22% is not enough!

### **\*\*\*Outrageous Quotes\*\*\***

There is nothing like the end of legislative session to bring out members' true character. Consider these two quotes:

Assemblywoman Noreen Evans, the author of a bill to require that children stay in booster seats until they are eight years old, said, “Most parents want to do the right thing. It's up to us to help them understand what the right thing is.” The Assemblywoman’s biography says she has three children. I wonder if she really believes that child rearing can be done by committee vote.

Assemblyman Mervyn Dymally, chair of the Legislative Black Caucus (LBC), called on “the Black Clergy” to “stop giving politicians a free ride” and “close their doors to politicians who refuse to consult with members of the LBC on issues that affect blacks in the state of California.” He continued, “Elected officials who are given easy access to the church and its members do not respect the members of the Black Caucus here in California, nor do they have to if they can bypass them and go directly to the church,” and “Black Clergy should ask elected officials seeking audiences before their congregations whether or not they've met and conferred with the Black Caucus and do they have a black consultant on retainer.” Dymally is upset because several high profile black churches have hosted Governor Schwarzenegger despite the Governor not meeting with the LBC. I wonder 1) how Mr. Dymally would react if a Caucasian legislator said,

“White clergy should ask elected officials seeking audiences before their congregations whether or not they've met and conferred with the White Caucus and do they have a white consultant on retainer.” And, 2) where does any politician get the idea he can tell a church what to do?

### **\*\*\*Time to Go Nuclear\*\*\***

You have to hand it to Governor Schwarzenegger. If he signs the global warming bill to force a 25% reduction in greenhouse gas emissions, it will be the greatest inducement to switch to nuclear power since the technology was invented. Not only is nuclear power the most friendly to air pollution, in a rare double benefit, but it is also the most beneficial to greenhouse gas reduction. Governor, California needs you to jump-start our conversion to electricity from nuclear energy now! By the way, if you do force a 25% reduction in greenhouse gases without a switch to nuclear, California's economy is going to pay a steep price.

We could try to soften the blow by first addressing the natural contributors to global warming. Forest fires (man-made and natural) would certainly have to be made illegal. Clamping down on the various exhalations of warm-blooded mammals would help a lot. But neither deporting all the illegal aliens, nor requiring hard-core environmentalists to leave the state gets us where we have to be under the bill, notwithstanding other positive effects. Culling the populations of whales, sea lions, and other large, gas producing animals living near the coast through “fair-chase” hunting I doubt would be popular even if it were done by Macah Indians. I suppose we could banish cows, but life would be unbearable without reasonably priced steaks, hamburgers, roasts, half-and-half, ice cream, cheese, and the like.

The devil is in the details of the new law -- but still, the point is that absent a nuclear conversion we will almost certainly not be able to reduce emissions fast enough. The only alternative left will be to produce less heat, because heat causes carbon atoms to join with oxygen atoms creating carbon dioxide, the main greenhouse gas. A partial list of the things to give up might include our barbecues, stoves, ovens, dishwashers, vacuums, computers, servers, televisions, video games, DVRs, DVD players, engines (including hybrids), spas, saunas, and “irresponsible amounts” of paving. This would be a very modest start. Any volunteers?

Yeah, me neither.

## **ISSUE FOCUS**

### **\*\*\*Thoughts on a Wall\*\*\***

In May of 1945 in the aftermath of WWII, the city of Berlin was divided into four sectors: the Americans, British, French in the West and the Soviets in the East. The next year, the Soviets began guarding the demarcation line with their military. In 1949 the

German Democratic Republic (East Germany) was founded, and by 1957 it became a crime (punishable by up to three years in prison) to leave East Germany without the government's permission. Between 1949 and 1961 more than 2.6 million East Germans escaped to the west and on August 13, 1961, the East Germans began building barriers between east and west Berlin. They had been losing too many highly skilled workers to West Berlin, where the economy thrived and people lived much better than in the East. That fence was fortified, the Brandenburg gate closed and the Berlin Wall erected. Between 1962 and 1989 when the wall finally came down, only about 5,000 East Germans escaped. While I believe it is crucial for America to protect its borders including the use of walls, fences, and guards, it is a sad commentary on the problems of Mexico that millions of Mexicans have escaped to America— more than East Germans fled to the west. Communism was evil, but the lack of liberty, prosperity and social mobility in many of the countries to our south is also oppressive and stifling to the point that people will risk everything and break the law to make a better life for themselves.

## **MISCELLANY**

### **\*\*\*California County History\*\*\***

Sierra County was created in 1852 out of the larger Yuba County. Among the reasons for separation was the distance from Yuba County's seat at Marysville. The great distance meant the only government officials who visited Sierra were tax collectors. The absence of regular courts and judges led to frontier justice, including a young woman named Juanita being hanged from a bridge in Downieville on July 5, 1851. She was the only woman to ever be lynched in California.

Sierra County derives its name from the Sierra Nevada mountain range. The county includes two unique areas. The area on the west side of the crest of the Sierra is mountainous and heavily forested, and home to miners and loggers. The area to the east of the crest is the Sierra Valley, an ancient lake bed. The "Lakes Basin" is a collection of some fifty lakes cradled on the southwest by the towering Sierra Buttes. The area was settled in the 1850s with cattle ranches that serviced Truckee and the Comstock mines.

Loyalton is the only incorporated city in the county. It was originally known as Smith's Neck, but changed its name because of the residents' loyalty to the Union during the Civil War. Despite being the only incorporated city, Loyalton is not the county seat. That is at Downieville where gold was discovered in 1849. One year later, the town had hotels and gambling houses, four bakeries, and four butcher shops and came to be the trading center for northern mines. By the mid-1850s, Downieville was California's fifth-largest town, when only San Francisco, Sacramento, Grass Valley, and Nevada City had larger populations.

Sierra County has no traffic signals.

### **\*\*\*A Good Read\*\*\***

This week I encourage you to read “The (Mis)Behavior of Markets: A Fractal View of Risk, Ruin and Reward” by Benoit Mandelbrot and Richard L. Hudson. Mandelbrot, the world famous mathematician best known as the inventor of fractal geometry, has produced a non-technical (i.e., no math proofs) review of his study of financial matters over the last 40+ years. Mandelbrot contends the current state of financial analysis grossly underestimates the risk of investment markets. The key underlying assumptions, independence, continuous change and “normal” distributions are related to a “mild” form of randomness and have all been shown to be incorrect for numerous investments over many time frames. Good empirical evidence for the inadequacy of current practice is the fate of Long Term Capital Management LP, a well capitalized hedge fund using the latest financial models and staffed with Nobel laureates that went broke in 1998 after more than four years of stellar returns. In the words of the prime mover and likely largest loser in the LTCM debacle, “Our whole approach was fundamentally flawed.” Mandelbrot shows that market behavior more strongly resembles “wild” randomness such as turbulent air or water flow and static in electrical lines. “Wild” randomness is characterized by Cauchy distributions, some dependence on prior events and logarithmic (power) relationships in volatility. “Fractal” models can describe such events much more accurately than the existing financial models. Much work needs to be done to develop the appropriate parameters of such models, but they hold the potential to prove much more robust than the current models.

## **BOE AND LEGISLATIVE DATES**

**September 12-13, 2006** --- BOE meets in Culver City.

**September 14, 2006** --- Free Tax Seminar for Nonprofit and Faith-based organizations in Santa Barbara. For more information/registration, go to:  
<http://www.boe.ca.gov/sutax/nonprofitsched.htm>

**September 21, 2006** --- Free Tax Seminar for Nonprofit and Faith-based organizations in Fairfield/Vacaville. For more information/registration, go to:  
<http://www.boe.ca.gov/sutax/nonprofitsched.htm>

**September 27, 2006** --- BOE meets in Sacramento.

**September 30, 2006** — Last day for Governor to sign or veto bills passed by the Legislature before September 1 and in his possession on or after September 1 (Art. IV, Sec.10(b)(2)).

**October 5, 2006** --- Free Tax Seminar for Nonprofit and Faith-based organizations in Ontario/Chino. For more information/registration, go to:  
<http://www.boe.ca.gov/sutax/nonprofitsched.htm>

**October 9, 2006** --- First day absentee ballots will be mailed to those who have requested them.

**October 9, 2006** --- Columbus Day.

**October 11, 2006** --- Board of Equalization meets in Sacramento.

## **NOTABLE DATES/ HISTORY**

**September 5, 1774** ---Delegates from 12 of the 13 American colonies (Georgia was the exception) convene as the First Continental Congress in Philadelphia.

**September 5, 1972** --- At the Summer Olympic Games in Munich, West Germany, Palestinian terrorists murdered 11 members of the Israeli Olympic delegation in a hostage-taking attempt that ended in a firefight with German police.

**September 5, 1975** --- Lynette 'Squeaky' Frommer, a follower of Charles Manson, attempted to assassinate President Gerald Ford in Sacramento, California.

**September 6, 1869** --- First westbound train arrived in San Francisco.

**September 6, 1941** --- The Nazi government required all Jews in German-occupied territories wear the yellow star of David for identification.

**September 7, 1936** --- Boulder Dam (now Hoover Dam) began operation.

**September 8, 1771** --- Mission San Gabriel Archangel formed in California.

**September 8, 1974** --- President Gerald Ford, who took office after Richard Nixon's resignation the month before, pardoned Nixon for any "crimes he committed or may have committed."

**September 9, 1776** --- The Continental Congress renamed the "United Colonies," as "United States."

**September 9, 1850** --- California was admitted to the United States as the 31<sup>st</sup> state.

**September 10, 1846** --- American inventor Elias Howe patented the sewing machine.

**September 10, 1963** --- Twenty African American schoolchildren entered public high schools in Birmingham, Mobile, and Tuskegee, Alabama, after Governor George Wallace yielded to federal pressure to desegregate.

## **GENERAL TAX INFORMATION**

For answers to your general tax questions, call the Board of Equalization information center. Customer service representatives are available to help you from 8:00 a.m. to 5:00 p.m. Pacific time, Monday through Friday (except state holidays).

Toll-free number: 800-400-7115  
TDD service for the hearing impaired

TDD phones: 800-735-2929  
Voice phones: 800-735-2922

To reach the Taxpayer Rights Advocate's office for assistance with any BOE issues, see <http://www.boe.ca.gov/tra/tra.htm>, or call toll-free 1-888-324-2798.

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